



WEEKLY ECONOMIC DIGEST

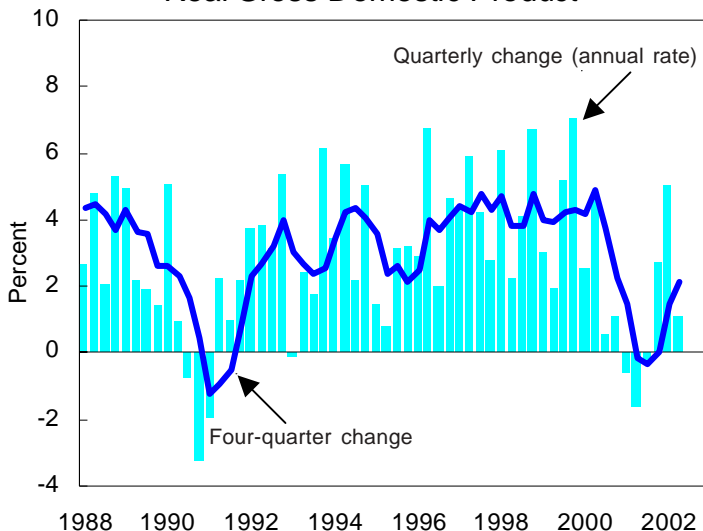


JOINT ECONOMIC COMMITTEE – DEMOCRATIC STAFF
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September 3, 2002

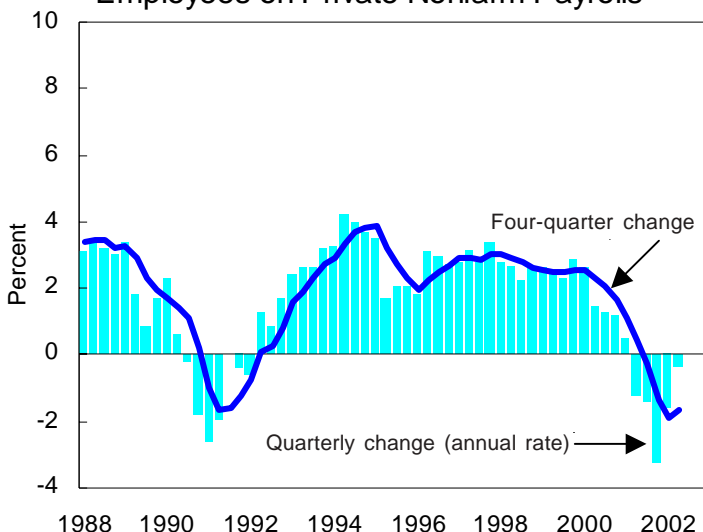
Revised GDP Data Leads to Lower Growth Forecasts

Real Gross Domestic Product



Source: Bureau of Economic Analysis, U.S. Department of Commerce.

Employees on Private Nonfarm Payrolls



Source: Bureau of Labor Statistics, U.S. Department of Labor.

- **The economy slowed in the second quarter.** Real (inflation-adjusted) gross domestic product (GDP) grew at a 1.1 percent annual rate in the second quarter, down from 5 percent in the first, according to data released by the Department of Commerce last week. Those data confirmed the preliminary estimate released in July. At that time, the Department also published revised estimates of the national income accounts back to 1999. Those revisions revealed that the economic downturn that began early last year was deeper and more protracted than was earlier believed. They also showed lower levels of wage and salary income and corporate profits.
- **Forecasters downgraded their expectations for near-term growth.** In August, the *Blue Chip* consensus forecast for economic growth in the second half of this year was revised down to 2.8 percent from 3.5 percent the month before. The Congressional Budget Office made the same forecast in its update, published last week. Those forecasts contrast with the more optimistic forecast of the Administration, which was made prior to the release of the new GDP data.
- **Sluggish labor markets sap consumer confidence.** Non-farm private payrolls have remained well below last year's levels. In July, the number of payroll jobs barely rose, and the civilian unemployment rate remained at 5.9 percent. Since then, continuing claims for unemployment insurance have remained well above the level that would be consistent with overall job creation. Other indicators, such as help-wanted advertising, also remain below year-ago levels. The uncertain jobs outlook has contributed to a weakening in consumer confidence in recent months.
- **Inflation remained tame.** In July, the consumer price index was only 1.5 percent above its level twelve months earlier. Core inflation, which excludes the effects of changes in food and energy prices, grew at a 2.4 percent annual rate. That matched the average rate of core inflation over the first half of the year. The relatively low and stable rate of inflation led the Federal Reserve, in August, to shift its risk assessment toward a focus on the possibility of further deterioration in economic growth rather than inflation as the main near-term risk.

Economy At A Glance	Jul	Jun	May	Apr	2002 Qtr 2	2002 Qtr 1	2001 Qtr 4	2001 Qtr 3	2001	2000
Economic Activity										
Real GDP (% growth)					1.1	5.0	2.7	-0.3	0.3	3.8
Industrial Production (% growth)	2.4	8.7	4.9	1.2	4.4	2.6	-6.7	-4.7	-3.9	4.5
Capacity Utilization (Level, %)	76.1	76.0	75.6	75.3	75.6	75.0	74.7	76.2	76.8	81.8
Civilian Unemployment Rate (Level, %)*	5.9	5.9	5.8	6.0	5.9	5.6	5.6	4.8	4.8	4.0
Housing Starts (Thousands)	1649	1695	1742	1566	1668	1725	1573	1603	1603	1573
Real Disposable Personal Income (% growth)	0.0	7.4	6.2	1.2	3.7	14.6	-7.6	10.5	1.8	4.8
Retail Sales (% growth)	15.4	18.2	-11.4	14.9	4.5	-2.4	12.9	-1.2	3.8	6.7
Personal Saving Rate (Level, %)	3.4	4.2	4.0	3.6	3.9	3.5	0.8	4.0	1.6	1.0
Inflation & Productivity										
CPI-U Inflation, All Items (% growth)	1.2	1.2	0.0	6.2	3.4	1.4	-0.3	0.7	2.8	3.4
Core CPI-U Inflation (% growth)	2.4	1.2	2.4	3.7	2.2	2.3	2.7	2.7	2.7	2.4
Compensation per Hour (% growth)					4.0	3.9	4.1	4.1	4.2	4.2
Output per Hour (% growth)*					1.1	8.6	7.3	2.1	1.1	2.9
Financial Markets										
T-Bill Rate, 3-month (Level, %)	1.7	1.7	1.7	1.7	1.7	1.7	1.9	3.2	3.4	5.8
T-Note Rate, 10-years (Level, %)	4.7	4.9	5.2	5.2	5.1	5.1	4.8	5.0	5.0	6.0
Federal Funds Rate (Level, %)	1.7	1.8	1.8	1.8	1.8	1.7	2.1	3.5	3.9	6.2
Dow Jones Industrial Avg (Index Level)	8617	9492	10080	10165	9913	10105	9641	9934	10189	10735

Sources: Bureau of Economic Analysis, U.S. Department of Commerce; Bureau of the Census, U.S. Department of Commerce; Bureau of Labor Statistics, U.S. Department of Labor; Board of Governors of the Federal Reserve System; Wall Street Journal; and, Haver Analytics.

Notes: Except where otherwise noted, values in the table represent percentage growth measured at seasonally adjusted **annual** rates. Growth in retail sales includes food services. Core CPI-U inflation is the percentage change in the CPI-U excluding food and energy as reported by the Bureau of Labor Statistics. Compensation is the Employment Cost Index for workers in private industry. Productivity is output per hour for private nonagricultural establishments. The 3-month Treasury bill rate is the secondary market rate.

* Subject to revision this week.

Upcoming Economic Releases:

- **Construction Spending, July** [Release: Wednesday, September 4, 2002]
- **Productivity, Second Quarter (Revised)** [Release: Thursday, September 5, 2002]
- **Manufacturers Shipments, Inventories, and Orders, July** [Release: Thursday, September 5, 2002]
- **The Employment Situation, August** [Release: Friday, September 6, 2002]